VZCZCXRO5141
PP RUEHAO RUEHCD RUEHGA RUEHGD RUEHGR RUEHHA RUEHHO RUEHMC RUEHMT
RUEHNG RUEHNL RUEHQU RUEHRD RUEHRG RUEHRS RUEHTM RUEHVC
DE RUEHBU #1022 2571538
ZNR UUUUU ZZH
P 141538Z SEP 09
FM AMEMBASSY BUENOS AIRES
TO RUEHC/SECSTATE WASHDC PRIORITY 4333
INFO RUEHWH/WESTERN HEMISPHERIC AFFAIRS DIPL POSTS PRIORITY
RUEHSO/AMCONSUL SAO PAULO PRIORITY 3960
RUEAIIA/CIA WASHINGTON DC PRIORITY
RUEATRS/DEPT OF TREASURY WASHINGTON DC PRIORITY
RHEHAAA/NATIONAL SECURITY COUNCIL WASHINGTON DC PRIORITY
RUCPDOC/USDOC WASHINGTON DC PRIORITY

UNCLAS BUENOS AIRES 001022

SIPDIS
SENSITIVE

E.O. 12958: N/A
TAGS: EFIN ECON EINV ETRD ELAB EAIR AR
SUBJECT: ARGENTINA ECONOMIC AND FINANCIAL REVIEW, SEPTEMBER 7-11, 2009

¶1. (U) Provided below is Embassy Buenos Aires' Economic and Financial Review covering the period September 7-11, 2009. The unclassified email version of this report includes tables and charts tracking Argentine economic developments. Contact Econ OMS Megan Walton at WaltonM@state.gov to be included on the email distribution list. This document is sensitive but unclassified. It should not be disseminated outside of USG channels or in any public forum without the written concurrence of the originator. It should not be posted on the internet.

-- ----------
GOA ANNOUNCES A 76% PARTICIPATION RATE IN BOND EXCHANGE
-- ----------

¶2. (SBU) Minister of Economy Amado Boudou announced September 7 that the GoA achieved an average 76% participation rate in the two local bond swaps that closed the same day, which were designed to draw bonds linked to the controversial official inflation rate out of the market. Cutting the supply of these bonds would reduce pressure on the GoA to manipulate inflation statistics, which the GoA is widely believed to have been doing since 2007. According to information from the Ministry of Economy, the first part of the exchange the GoA achieved a 60% participation rate (out of ARP 8.3 billion in eligible bonds), and the second part (announced shortly after the first opened) an 86% participation rate (out of ARP 14.0 billion eligible for that exchange).

Before the swaps, market analysts predicted that the main participation in the exchange would be by Argentine government entities holding the bonds, but actual participation by retail investors beat their expectations. As a result of the exchange, the GoA will issue ARP 4.25 billion in Bonars 2014 and ARP 10.8 billion in Bonars 2015. According to the GoA, this liability management transaction will reduce debt payments by ARP 7.2 billion over the next three years and generate a nominal debt reduction of ARP 2 billion. In contrast, former BCRA President and congressional Deputy-elect Alfonso Prat-Gay argued that the transaction will only reduce debt payments by ARP 4.5 million during the remaining two-plus years of the term of President Cristina Fernandez de Kirchner at the cost of increasing debt service by ARP 11 billion for the next President. Besides alleviating near-term debt amortizations, this transaction will also reduce GoA exposure to inflation. (Note: Prior to the exchange, about one-third of GoA debt stock was in inflation-adjusted bonds.)

ICSID RULES AGAINST ARGENTINA IN AZURIX CASE

¶3. (SBU) On September 1, 2009 the Annulment Committee of ICSID (the World Bank's International Court for the Settlement of International Disputes) dismissed an Argentine government request to annul a 2006 award to U.S. firm Azurix in the amount of over $165 million. This is the second case in which Argentina has exhausted all ICSID

procedures and is expected to implement an awarded payment. The first was a case filed by CMS; while their annulment request was dismissed on September 25, 2007, the GoA has yet to make any payment in this case, arguing that the claimant did not follow to necessary proceedings to implement the awarded payment.
Background: Azurix won a 30-year concession in 1999 to manage a significant share of Buenos Aires province's water and wastewater management facilities. Many of its tariff rights under the concession contract were effectively repudiated by the Province when the water in one city turned sour in April 2000 because of algae in the local reservoir, which was under the Province's exclusive control. According to Azurix, provincial officials blamed Azurix for the problems, refused to allow the company to bill for its services, required the company to provide bottled water to the town at the company's expense, and publicly announced that people should not pay their water bills. The Province also allegedly repudiated Azurix's right to amortize its bid payment. In January 2001, Azurix filed for ICSID arbitration. While the arbitration case remained in process, Azurix filed for bankruptcy in December 2001 and returned operation of all its water and wastewater management facilities to provincial authorities in March 2002. In June 2006, the Tribunal decided that the respondent had failed to accord full protection and security to the investment and that the respondent had breached the U.S.-Argentina Bilateral Investment Treaty by taking arbitrary measures that impaired the claimant's use and enjoyment of its investment. Therefore, it awarded compensation of USD 165.2 million plus interest. Argentina registered an ICSID annulment proceeding on December 11, 2006 in order to contest the award, and the September 1 ruling was a response to that proceeding.
KELLY